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## K-12 EDUCATION

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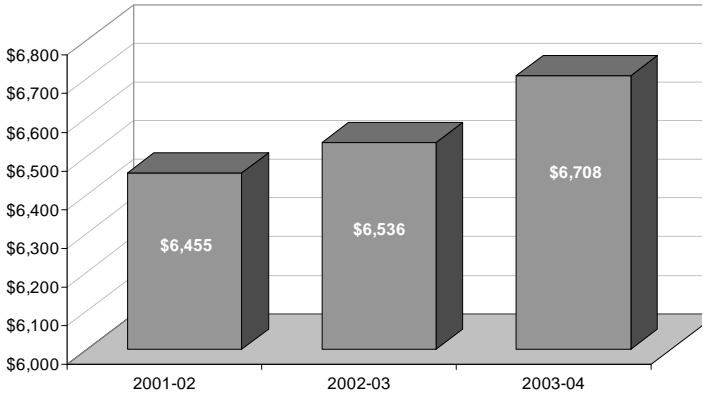
### Overview

Despite the fiscal challenge facing California, the K-12 education budget preserves core instructional programs and key reforms and adheres to the Proposition 98 funding requirements. Thus, California's public schools continue to receive the resources to provide more than 6.2 million pupils a high quality education and the tools to meet California's world-class standards. The significant drop in General Fund revenues as a result of the delayed economic recovery requires that funding be reduced, even in the highest priority programs. The funding formula for Proposition 98 recognizes this by providing that the guarantee reflect changes in General Fund revenue growth.

While recognizing that reducing expenditures will be a challenge for the schools, it is important to note that significant improvements in funding and school performance have been made in recent years and that much of that effort can be preserved and built upon.



### Proposition 98 K-12 Per Pupil Funding



Adjusted for a comparison to the Child Care Realignment Proposal in 2003-04.

- ◆ Total 2003-04 K-12 funding from all sources is now \$53.0 billion, a \$496.8 million decrease from 2002-03 and a \$12.6 billion increase over the 1998-99 level. The most significant reason for the decline in year-over-year total funding is a one-time suspension of State Teachers' Retirement System contributions.
- ◆ Total 2003-04 per-pupil expenditures from all sources are \$8,899, down \$173 from 2002-03 and up \$1,556 from the 1998-99 level.
- ◆ Proposition 98 per-pupil spending for the budget year will increase to \$6,708, which is \$172 over the 2002-03 level and \$1,066 over the 1998-99 level, approximately a 3.8 percent average annual increase over the course of this Administration.



- ◆ Total Proposition 98 support for K-12 education will increase by over \$1.4 billion in 2003-04, to \$39.9 billion. This represents a 28.8 percent increase (\$8.9 billion) from the 1998-99 level.

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### K-12 Cost Increases

**Enrollment Growth**—Attendance growth in public schools continues to be relatively low, primarily due to steady declines in birth rates beginning in the early 1990s. For the current year, total K-12 Average Daily Attendance (ADA) is estimated to be 5,895,275. This reflects an increase of 1.48 percent over the 2001-02 fiscal year. For the budget year, total K-12 ADA is estimated to be 5,954,154, or 1.00 percent over the current year.

**Apportionment Growth**—Statutory enrollment growth funding of \$358.7 million for school district and county offices of education apportionments (\$321.5 million) and special education (\$37.2 million) is fully funded. This reflects the Administration's goal of preserving core K-12 services even in the midst of the current budget shortfall.

**Public Employees' Retirement System (PERS)**—The Budget fully funds the estimated \$381.7 million increase in the PERS school employer contribution rate. Failure to fund this increase would effectively reduce existing funding for school districts and county offices of education.

**Unemployment Insurance**—The Budget provides full funding for the estimated \$35.2 million increase in local education agency Unemployment Insurance (UI) reimbursements. This increase is attributable to a doubling of the UI rate.



**Equalization**—The Budget provides funding of \$250 million for school district revenue limit equalization. This represents an increase of \$47 million over the amount appropriated in Chapter 1167, Statutes of 2002.

**Special Education**—The Budget provides sufficient funding between the 2002-03 and 2003-04 fiscal years to fully fund the State's statutory share of costs. The Budget also provides \$8.99 million in one-time funds to fully fund the 2001-02 deficit in Special Education due to ADA increases.

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### **Proposed Reductions**

**Across the Board Reductions**—\$980.8 million from 3.66 percent reductions to all programs including apportionments, proposed in the December 2002 are proposed to be continued in 2003-04.

**Additional Mid-Year Spending Reduction Proposals**—\$356.8 million in a one-time fund shift to use prior year savings, \$98.8 million from eliminating Stage 3 child care, \$73.5 million from other specific reductions and K-12 savings are also continued in 2003-04, except \$390 million that is one-time in nature.

**Categorical Programs and Block Grant**—To bring Proposition 98 funding to the Proposition 98 funding level in the current year, \$482 million in additional savings is proposed by reducing certain K-12 categorical programs by an additional 7.46 percent in 2002-03, continuing into 2003-04. Over the two years, categorical program reductions total \$1.086 billion, with affected programs reduced by various percentages up to 12 percent. To provide significant additional flexibility to districts to manage within these reduced funding levels, it is proposed that 64 programs be consolidated into a \$5.1 billion block grant for the purposes of:



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professional development, instructional materials and technology, specialized and targeted instructional programs, school safety, and student services.

**Other Reductions:**

- ◆ \$886 million is saved by not funding cost-of-living adjustments for Proposition 98 programs, including general purpose apportionments.
- ◆ \$106 million in daily attendance driven adjustments to categorical programs is not funded, consistent with the decision to reduce these programs.
- ◆ \$870 million is saved by not funding the cost of various new mandates identified by the Commission on State Mandates and deficiencies for mandated programs that have been reported by the State Controller.

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**Preserving Key Reforms**

Test scores show that several programs focused on early grades and the acquisition of basic language and mathematics skills are working. Since the Stanford 9 exam was first given in March 1998, the greatest gains in reading skills have been in grades 2-4. Similar results are demonstrated on the new California Standards Test for Language Arts. The Administration proposes to preserve these programs outside of the block grant:

- ◆ K-3 Class Size Reduction—\$1.480 billion
- ◆ Math and Reading Professional Development—\$28 million
- ◆ Principal Training—\$26 million
- ◆ Assistance to low performing schools—\$354 million



- ◆ Standardized testing—\$120 million

**K-3 Class Size Reduction**—The Budget proposes \$1.480 billion for this program in 2002-03 and 2003-04. In view of the reductions totaling 10.82 percent in this program, the Budget includes amendments to Budget Act language to allow this program to receive transfers of funding from other categorical programs, including the proposed categorical block grant in 2003-04.

**Pupil Testing**—The Budget provides \$120.2 million, including federal funds, for various statewide exams. These assessments provide valuable information to parents, teachers, schools, and the State regarding pupil performance and are the foundation of the State's accountability system.

- ◆ Standardized Testing and Reporting (STAR) Exam—Serves as the primary indicator for the Academic Performance Index and measures pupil performance on various State-adopted content standards, coupled with a national norm-referenced exam. The Budget includes \$66.1 million for this exam.
- ◆ High School Exit Exam (HSEE)—Commencing with the 2003-04 school year, all pupils must pass the HSEE in order to receive a diploma, unless the State Board of Education acts to delay this requirement pursuant to Chapter 716, Statutes of 2001. The Budget includes \$21.2 million for this exam.
- ◆ California English Language Development (ELD) Exam—This exam is required to be administered to pupils whose primary language is not English within 30 days of enrollment and annually thereafter to pupils identified as English language learners. This assessment allows schools to ensure pupils are being taught using the correct curriculum. The Budget includes \$18.5 million for this exam.



**Accountability**—The State has committed significant resources during this Administration to improve the academic performance of low-performing schools.

- ◆ **Immediate Intervention/Underperforming Schools Program (II/USP)**—The Budget provides \$127.6 million, including federal funds, for the second year of implementation funding for schools in the third cohort, as well as a third year of implementation funding for schools in the second cohort that made significant progress but did not reach their growth targets. Additionally, the Budget includes \$32.9 million, including federal funds, for sanctions for those schools that failed to make significant progress during the two years they were provided with implementation funding.
- ◆ **High Priority Schools Grant Program**—The Budget includes \$193.8 million, including federal funds, for the second year of funding for this program, which provides up to \$400 per pupil to the lowest-performing schools in the State to improve academic performance.

**Standards-Based Training Programs**—The Budget includes \$26.2 million for the Principal Training Program and \$27.9 million for the Mathematics and Reading Professional Development Program. These programs were established in 2001 to teach existing school staff new curriculum and professional standards. While the Administration remains committed to both of these programs, budgetary constraints necessitate the extension of the timeframes for the completion of these training programs. It is anticipated that the Principal Training Program will be completed in 2004-05. The completion date for the Mathematics and Reading Professional Development Program is dependent on the funding



levels in future years. These programs remain outside the block grant because they represent a time-limited effort, rather than an ongoing staff development program.

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## K-12 School Facilities

**Proposition 47**—Proposition 47, approved on the November 2002 statewide ballot, provides \$11.4 billion for K-12 education facilities through the State School Facilities Program and \$1.65 billion for higher education facilities. The K-12 funding includes \$6.3 billion for new construction projects, \$3.3 billion for modernization projects, \$1.7 billion for critically overcrowded schools, and \$50 million for joint use projects. Within the approved amounts, Proposition 47 sets aside \$2.9 billion for new construction projects and \$1.9 billion for modernization projects for which school districts had submitted applications to the State Allocation Board on or before February 1, 2002. At its December 18, 2002, meeting, the State Allocation Board apportioned \$3.35 billion for new construction projects and \$2.07 billion for modernization projects.

**Charter School Facilities**—Pursuant to Chapter 935, Statutes of 2002, Proposition 47 sets aside up to \$100 million of the new construction general obligation bond funds for charter schools. Applications for funding under this program must be processed in accordance with provisions of the State School Facilities Program. In addition, the California School Finance Authority (CSFA) must review and determine that a charter school applicant is “financially sound” as set forth in provisions of AB 14, as a condition of receiving funds under the Charter School Facilities Program.





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## Child Care

**Child Care Realignment**—In the 2002-03 Governor's Budget, the Administration proposed child care reforms to provide efficient, equitable child care services to California's neediest families and to stabilize the unsustainable growth in CalWORKs Stage 3 child care. The proposal was subsequently withdrawn to allow for more time for input requested by the Legislature and stakeholders. However, since the 2002-03 Budget was enacted, the fiscal condition of the State has worsened while the caseload for Stage 3 child care services continues to grow. Moreover, the current child care system is complex and difficult to manage due to the multiple State and local agencies involved in the system. Some problems with the current system include:

- ◆( Three-stage CalWORKs system creates needless seams between Stage 1 and Stage 2.
- ◆( A family who exhausts its eligibility for care in Stage 2 and has not applied on waiting lists for other subsidized child care programs, could potentially be exposed to an interruption in services received.
- ◆( All working poor families are not treated in an equitable manner.
- ◆( Programs administered through direct contract centers are administratively complex and burdensome, resulting in millions of unspent dollars annually, thus depriving other families of services.
- ◆( Access to high quality child care is inequitable across the state, as centers are not evenly distributed between neighborhoods and regions.



- ◆ Recent comments from Alternative Payment providers indicate that the system is fraught with inefficiencies, abuse, and fraud.

In view of these concerns, the Administration proposes that all Child Care and Development Programs, with the exception of State Preschool and the After School Education and Safety Programs, be transferred to counties, and CalWORKs Stage 3 child care services be eliminated effective April 1, 2003. By giving counties both responsibility to administer child care services in conjunction with other social service programs for the same families and a financial stake in child care expenditures, the proposal would facilitate greater coordination for needy families, enhance accountability and fraud prevention, reduce a layer of bureaucracy and administrative costs, and facilitate integration of local priorities and funding sources (including Proposition 10 funding) to fill gaps in meeting child care needs more equitably than can be done while administered as a disconnected State program.

As a result of the Administration's proposal, almost \$1.9 billion in revenues is being made available to counties for child care, including an estimated \$519.0 million in Child Care and Development Fund federal funds, over \$1 billion from new revenues, plus \$344.0 million from the Temporary Assistance for Needy Families (TANF) Block Grant normally earmarked for Stage 2 child care to counties as part of CalWORKs. These funds will meet the child care needs of cash aid recipient families, former CalWORKs recipient families, and other working poor families, with greater local flexibility for local determination of the families most in need of child care subsidies.

The State Department of Education's (SDE) child care budget for the 2003-04 fiscal year retains \$421.5 million for State Preschool (\$314.2 million) and the After School Education and Safety Program (\$107.3 million). In addition, SDE's child care budget



includes \$11 million for Preschool quality enhancements (\$5 million) and adequate reserves for other contract close-outs (\$6 million) from one-time funds.

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## California State Library

The Budget proposes the following adjustments for the California State Library:

- ◆( **December 2002 Mid-Year Spending Reduction Proposals**—\$15.8 million in 2002-03 and 2003-04 from the Public Library Foundation program of grants to support local library operations, \$500,000 in 2002-03 and \$1.0 million in 2003-04 to phase out civil liberties public education that has received the intended three years of funding for developing instructional materials, and \$1.0 million in 2002-03 and \$1.5 million in 2003-04 offset by federal increases for state operations.
- ◆( **Library Fees**—\$15.1 million in new fee authority to replace General Fund for direct and interlibrary loans of materials (\$12.1 million) and State administrative costs (\$3.0 million).
- ◆( **Literacy Program Consolidation**—A consolidation of existing literacy services to streamline administration and enhance local flexibility. The Budget provides \$5.3 million General Fund for this purpose.
- ◆( **Library of California**—\$1.0 million in savings by eliminating this program that is primarily administrative at this time.
- ◆( **State Operations**—\$1.3 million in State administrative savings resulting from the elimination and downsizing of identified local assistance programs.



- ◆ **Library Construction and Renovation Bond Fund Audits—**Appropriating \$398,000 from bond funds for state operations to ensure that the newly authorized funds are used appropriately.

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## Governor's Scholars Awards

The Administration is proposing trailer bill legislation to authorize delayed disbursement of funding for Governor's Scholars Awards and Governor's Math and Science Scholars Awards until the recipients complete the 11<sup>th</sup> grade. Since students may not access their awards until they graduate high school, this revision will have no adverse fiscal impact. Because the program is an individual entitlement, this change can be made only prospectively.

This adjustment, and expected reductions in the number of awards from new standards aligned tests, will generate \$78 million in General Fund savings in 2003-04.



**Proposition 98**  
(Dollars in Thousands)

<b>Proposition 98 Appropriation</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>
State General Fund	\$29,682,180	\$28,897,639	\$28,225,485
Local Revenue	13,570,034	15,013,304	15,867,659
<b>Total</b>	<b>\$43,252,214</b>	<b>\$43,910,943</b>	<b>\$44,093,144</b>

- Due to the decline in General Fund revenues, the 2002-03 Proposition 98 minimum guarantee fell by \$2.6 billion since enactment of the 2002 Budget Act.
- The 2003-04 Proposition 98 minimum guarantee is calculated based on the proposed 2002-03 funding level. The minimum guarantee increases by \$78.4 million in 2003-04. The 2003-04 proposed funding level exceeds the minimum guarantee by \$103.8 million.





# HIGHER EDUCATION

## Higher Education Funding Total Funds (Dollars in Millions)

	2001-02	2002-03	2003-04	One-Year Change Amount	Percent
University of California <sup>1/</sup>	\$4,482.6	\$4,408.0	\$4,520.2	\$112.2	2.5%
California State University <sup>1/</sup>	3,433.2	3,477.3	3,565.6	\$88.3	2.5%
Community Colleges	6,457.8	6,533.2	6,129.4	-\$403.8	-6.2%
Student Aid Commission	544.0	621.3	699.4	\$78.1	12.6%
Other Higher Education <sup>2/</sup>	207.5	171.7	194.2	\$22.5	13.1%
<b>Total Funds</b>	<b>\$15,125.1</b>	<b>\$15,211.5</b>	<b>\$15,108.8</b>	<b>-\$102.7</b>	<b>-0.7%</b>

<sup>1/</sup> For purposes of this table, expenditures for the University of California and California State University have been adjusted to include the offsetting general purpose income. This provides consistency in comparing magnitudes and growth among the various segments of education.

<sup>2/</sup> Other Higher Education amount includes the California Postsecondary Education Commission, Hastings College of the Law, and General Obligation Bond Interest and Redemptions for UC, CSU and Hastings.

## Overview

The Governor's Budget supports California's systems of higher education by continuing to provide full access and high quality learning experiences, while remaining affordable to all qualified



students, and accountable to the public. Despite the State's economic condition, the Budget continues the Administration's focus on accessibility, quality, and accountability.

The 2003-04 Budget provides total funding from all sources of \$4.5 billion for the University of California (UC), an increase of \$112 million or 2.5 percent. This includes \$3.0 billion in General Fund resources, reflecting a reduction of 4.2 percent below the 2002-03 level, but still an increase of 19.7 percent over the last five years.

The Budget also provides total funding of almost \$3.6 billion for the California State University (CSU), an increase of \$88 million or 2.5 percent. This includes total General Fund of \$2.6 billion reflecting a reduction of 3.9 percent below the 2002-03 level, but an increase of 23.1 percent over the last five years.

The Budget provides over \$6.1 billion from all sources for the California Community Colleges (CCC) including approximately \$4.5 billion from General Fund and Proposition 98 related sources. Total funding is reduced approximately \$400 million, or 6.2 percent, primarily reflecting Proposition 98 funding reductions. Overall CCC funding in 2003-04 reflects a 22.2 percent increase over the past five years.

Due to the unprecedented fiscal shortfall, the Budget proposes to increase CCC fees for the first time in ten years from \$11 per unit to \$24 per unit. This will help offset the reductions in General Fund while still keeping California's Community Colleges the most accessible and affordable in the nation. The Budget also includes increases in fee revenues at UC and CSU based on the actions of the UC Regents and CSU Trustees in the current year and in anticipation of further fee increases in those segments in the budget year.





Both UC and CSU will set aside one-third of their fee revenues for financial aid, and CCC fee waivers will ensure needy students do not pay fees. In addition, the Administration has anticipated increased grant levels for the Cal Grant Program in both the current and budget years to ensure low income students will not be denied an education due to lack of resources. It is expected that fees will remain significantly below the average of comparable institutions in all three segments, with Community Colleges remaining the most affordable system in the nation.

Although the State's fiscal condition requires significant General Fund reductions in all the higher education segments, the reductions are intended to minimize the impact on direct instruction and ensure continued high quality. Moreover, enrollment growth of 55,000 full-time equivalent students (FTES) is funded, providing room for over 1.6 million FTES.

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## University of California

For 2003-04, total funding for the university will increase by 2.5 percent over the revised current year. The Governor's Budget proposes to fund a 4.5 percent increase in enrollment at the University of California (UC). However, due to the significant decline in State revenues, General Fund expenditures will decline by 4.2 percent for the university, or approximately \$133.7 million.

The Budget anticipates the UC Board of Regents will increase student fees in 2003-04 to compensate for a portion of the proposed General Fund reductions. The Budget assumes additional revenue from anticipated future student fee increases over the amount projected for receipt in 2002-03.



**Student Enrollment**—The Budget includes \$117.2 million to fund an increase of 8,000 additional FTES. This amount also provides funding for approximately 5,000 FTES in over-enrollment that was not anticipated in the 2002-03 fiscal year.

**Other Augmentations**—The Budget provides a total of \$51 million for lease-revenue bond debt service, increased annuitant health benefit costs, and UC Merced start-up costs.

**December 2002 Mid-Year Spending Reduction Proposals**—The December 2002 package proposes a reduction of \$74 million in the 2002-03 fiscal year, including a \$26.3 million reduction to academic and institutional support and student services; \$19 million unallocated base reductions; \$18 million in savings from research projects; and \$10.9 million total for AP On-line, Outreach, Public Service, and the K-12 Internet Initiative.

**2003-04 General Fund Reductions**—The Budget proposes no increases for the Partnership Agreement which saves \$236 million, and additional General Fund base reductions totaling \$373 million in 2003-04 including:

- ◆ \$214 million in unallocated base reductions.
- ◆ \$76 million in reductions for academic and institutional support, students services, and public services.
- ◆ \$33 million for outreach.
- ◆ \$29 million for research.
- ◆ \$15 million for the Subject Matter Projects professional development program.
- ◆ \$5.5 million for AP On-Line and K-12 Internet Initiative.



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## California State University

For 2003-04, total funding will increase by 2.5 percent over the revised current year budget. The Governor's Budget proposes to fund a 5 percent increase in enrollment at the California State University (CSU). However, due to the significant decline in State revenues, General Fund expenditures will decline by 3.9 percent for CSU, or approximately \$105.8 million.

The Budget anticipates the CSU Board of Trustees will increase student fees in 2003-04 to compensate for the proposed General Fund reductions. The Budget assumes future anticipated student fee increases over the amount projected for receipt in 2002-03.

**Student Enrollment**—The Budget includes \$150.9 million to fund an increase of 16,000 additional FTES. This amount also provides funding for approximately 8,000 FTES in over-enrollment that was not anticipated during the 2002-03 fiscal year.

**Other Augmentations**—The Budget provides a total of \$70 million for increased Public Employees' Retirement System costs, increased annuitant benefit costs, and additional lease-revenue bond debt service.

**December 2002 Mid-Year Spending Reduction Proposals**—The December 2002 package proposes \$59.6 million in unallocated reductions in 2002-03.

**2003-04 General Fund Reductions**—The Budget proposes no increases for the Partnership Agreement which saves \$201 million and \$326 million in additional base General Fund reductions to CSU's budget in 2003-04 including:

- ◆ \$143 million in unallocated base reductions.



- ◆ A total of \$112 million in reductions for academic and institutional support and student services.
- ◆ \$53 million through increasing the faculty-to-student ratio from 18.9 to 1 to 19.9 to 1.
- ◆ \$13 million in outreach reductions.
- ◆ \$5 million to eliminate funding for the Cal Teach Program and the Bilingual Teacher Recruitment Program and to reduce funding for the Student Fellows Program.

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## California Community Colleges

The 2003-04 Governor's Budget includes over \$6.1 billion in total funding for the California Community Colleges (CCC). Of this amount, \$4.1 billion, including \$1.9 billion in General Fund, counts towards the Proposition 98 guarantee. The Budget provides 3.0 percent growth for apportionments, which will allow the CCC to accommodate 1.1 million FTES.

### **December 2002 Mid-Year Spending Reduction Proposals—**

The December 2002 package proposes a \$97.5 million across-the-board reduction of 3.66 percent to all CCC programs including apportionments; an \$80 million reduction to reflect the estimate of non-compliant FTES claimed in 2001-02 by community college districts providing instruction to concurrently enrolled K-12 students; and a \$396,000 reduction to state operations. These reductions are continued in 2003-04. Additionally, a one-time \$33.3 million decline in 2002-03 property tax revenues is not proposed to be backfilled due to the State's overall revenue shortfall.

**CCC Student Fees—**The Budget for 2003-04 proposes to increase fees from the current level of \$11 per unit to \$24 per unit in order to maintain access. As a result, fee revenue will increase by approximately \$149 million, replacing a like amount of General



Fund. Even with the fee increase, the CCC will continue to be the most affordable higher education system in the nation, with fees that are less than 40 percent of the national average for community colleges. The Budget also includes a \$215.3 million decrease in apportionments to reflect estimated short-term attrition related to fee increases.

**Governor's Budget Reductions**—The Budget proposes the following additional significant reductions:

- ◆ \$211.5 million in 2003-04 to selected categorical programs that generally augment services provided with discretionary funds.
- ◆ \$60.3 million to all CCC categorical programs in both the 2002-03 fiscal year and the 2003-04 fiscal year for the CCC's share of the K-14 Proposition 98 7.46 percent across-the-board reduction.
- ◆ \$2.4 million in 2003-04 to the Fund for Student Success, consistent with the 50 percent reduction proposed to outreach programs for other higher education segments.
- ◆ \$1.5 million in 2003-04 due to the elimination of the CCC Health Fees Mandate.

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## California Postsecondary Education Commission

In view of the State's current fiscal situation, the Governor's Budget proposes to reduce the Commission's General Fund Budget by \$1.4 million, from \$2.1 million to \$700,000. This reduction will result in the elimination of 23.5 of the Commission's 28.5 positions.



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## Financial Aid Programs

The Governor's Budget proposes to increase Cal Grant funding to fully cover the student fee increases enacted by UC and CSU in 2002-03, and anticipates further increases the segments may implement in 2003-04.

The total General Fund for Cal Grant A and B awards will increase by \$82 million over the amount projected for expenditure in 2002-03, from \$577 million to \$659 million. These figures include \$5.4 million in 2002-03 and \$13.8 million in 2003-04 to reflect current year fee actions of the governing boards and assumes further fee increases in 2003-04.

In view of the current General Fund situation, the Budget proposes the following General Fund reductions to specific financial aid programs:

- ◆ \$10 million to reflect a 9 percent reduction in the value of new Cal Grant A and B awards provided to recipients at private colleges and universities.
- ◆ \$5 million through eliminating the State Work Study Program.
- ◆ \$4 million by reducing the number of new Cal Grant C awards from 10,730 to 7,690.
- ◆ \$3 million by reducing the number of new Cal Grant T awards from 1,390 to 850.

